

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 AGR-05 PA-01

PRS-01 /098 W

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R 161633Z DEC 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5139

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL HAMBURG

AMCONSUL DUSSELDORF

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E.O. 11652: N/A

TAGS: ENRG, GW

SUBJ: FRG ENERGY DECISIONS: CHAPTER II

REF: (A) BONN 18505; (B) BONN 19928

1. SUMMARY: FRG HAS ANNOUNCED AGREEMENT WHICH WILL
ASSURE POLITICALLY ACCEPTABLE LEVEL OF COAL CONSUMPTION
FOR 1976. IT HAS DECIDED ALSO TO IMPOSE WINDFALL-PROFITS
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TAX ON DOMESTIC GAS AND OIL PRODUCTION. COAL INDUSTRY

HAS GAINED MAJOR BOOST FROM FRG, PRIMARILY DUE TO CENTRAL ROLE WHICH RUHR DISTRICT WILL PLAY IN 1976 ELECTIONS. END SUMMARY.

2. FOLLOWING DECEMBER 10 CABINET MEETING, ECONMINISTER FRIDERICHs ANNOUNCED AGREEMENT WHEREBY POWER INDUSTRY WILL BUY 28 MILLION TONS OF HARD COAL IN 1976, AND POSSIBLY ALSO IN 1977. COMPANIES WILL USE MINIMUM OF 26 MILLION TONS TO GENERATE ELECTRICITY; THEY WILL PUT BALANCE INTO PRIVATE STOCKS. FRIDERICHs ADDED THAT FRG EXPECTS 1976 ECONOMIC UPTURN TO CREATE DEMAND FOR ADDITIONAL 2.5 MILLION TONS -- I.E., TOTAL 1976 CONSUMPTION OF 30.5 MILLION TONS.

3. FRG CURRENTLY USES FUNDS RAISED BY "COAL-PENNY" TAX ON CONSUMER POWER BILLS TO SUBSIDIZE COAL SALES TO POWER INDUSTRY; THESE FUNDS MAKE UP DIFFERENCE BETWEEN HEATING OIL AND COAL. TO FINANCE NEW "VOLUNTARY UNDERTAKING" BY POWER INDUSTRY TO USE MORE COAL, FRG WILL HAVE TO RAISE EXTRA DM 200 MILLION. QUESTION WHICH CABINET WILL DECIDE IN JANUARY IS HOW TO DISTRIBUTE THIS BURDEN. IF ALL CONSUMERS (INDUSTRIAL AND HOUSEHOLD) ARE TO PAY, "COAL PENNY" WILL RISE FROM CURRENT 3.24 PERCENT TO 4.2 PERCENT OF POWER BILLS. NEED TO MAINTAIN COMPETITIVENESS OF ENERGY-INTENSIVE WEST GERMAN INDUSTRIES (E.G., ALUMINUM AND CEMENT), HOWEVER, MAY PERSUADE FRG TO EXEMPT INDUSTRIAL USERS. IN THAT CASE, PRIVATE CONSUMERS WILL PAY 5.6 PERCENT "COAL PENNY". FRG PROJECTS THAT EXTRA BILL TO PRIVATE CITIZEN WILL RANGE FROM .15 PFENNIG/KWH TO .45 PFENNIG/KWH.

4. CABINET ALSO DECIDED TO IMPOSE WINDFALL-PROFITS TAX ON LOCAL PRODUCTION OF CRUDE OIL AND NATURAL GAS. FROM 1975 TO 1980, FRG ECONMINISTRY ESTIMATES THAT PRODUCING COMPANIES WILL REAP ANNUAL WINDFALL PROFITS OF DM 400 MILLION FOR OIL, DM 800 MILLION FOR GAS. FRG HAS NOT ANNOUNCED LEVEL OF NEW TAX, ONLY THAT IT WILL ACCORD WITH "INTERNATIONAL PRACTICE". FRIDERICHs WILL DISCUSS DETAILS WITH OFFICIALS IN AFFECTED LAENDER, PRIMARILY NORTHRHINE-WESTPHALIA WHICH HAS 95 PERCENT LIMITED OFFICIAL USE

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OF GERMAN GAS/OIL PRODUCTION.

A. FUNDS GENERATED BY WINDFALL-PROFITS TAX WILL FLOW INTO ONE OF TWO CHANNELS: (A) OIL- AND GAS-RELATED FIELDS, SUCH AS DEEP-DRILLING, BUILDING OF UNDERGROUND STORAGE AREAS, OR (B) OTHER ENERGY-RELATED AREAS, SUCH AS COAL RESEARCH AND COAL STOCKS. ECONMINISTRY CLAIMS THAT EITHER CHANNEL IS ADMINISTRATIVELY POSSIBLE.

B. WINDFALL PROFITS TAX ON GAS AND OIL WILL HIT BOTH MAJORS AND GERMAN COMPANIES. ACCORDING ECONMINISTRY FIGURES (1974), TEXACO, SHELL, ESSO, MOBILN AND BP HAVE SOME 62 PERCENT OF CRUDE OIL PRODUCTION AND 85 PERCENT OF NATURAL GAS PRODUCTION. GERMAN COMPANIES -- WINTERSHALL, PREUSSAG, DEUTSCHE SCHACHTBAU, DEILMANN, ITAG -- COVER BALANCE.

5. REACTIONS TO DECEMBER 10 DECISION HAVE BEEN MIXED. MINISTER-PRESIDENT KUEHN OF NORTHRHINE-WESTPHALIA HAILED "OPTIMAL SOLUTION" WHICH WILL ASSURE ACCEPTABLE LEVEL OF COAL PRODUCTION FOR TWO YEARS. MOST PRESS ACCOUNTS, HOWEVER, HAVE BEEN CRITICAL. FRANKFURTER

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ALLGEMEINE CALLED COAL AID PROGRAM "QUESTIONABLE",
AND VIEWED IT PRIMARILY AS DEVICE TO DEFER STRUCTURAL
COAL PROBLEMS BEYOND NEXT YEAR'S ELECTIONS. HANDELS-
BLATT SPOKE OF "AN ELECTORAL CAMPAIGN WITH COAL" AND
IMPLIED THAT CONSUMPTION COMMITMENTS BY POWER INDUSTRY
ARE LESS THAN AIR-TIGHT. PRIVATE FRG OPINION IS THAT
RUHR'S IMPORTANCE IN VOTER-RICH NORTHRHINE WESTPHALIA
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FORCED FRG TO ASSURE THAT 1976 IS AT LEAST AN
ACCEPTABLE YEAR FOR HARD-COAL INDUSTRY. INDEED, MANY
GERMANS BELIEVE THAT "ELECTIONS ARE WON IN THE RUHR
AND IN THE RHINELAND."

6. COMMENT: POLITICAL FACTORS WEIGHED HEAVILY IN
RECENT FRG ENERGY DECISIONS WHICH HAVE GIVEN COAL
INDUSTRY A GOOD DEAL OF WHAT IT WANTED. CHANCELLOR
SCHMIDT REPORTEDLY DECIDED SEVERAL WEEKS AGO THAT,
TO KEEP POLITICAL LID ON RUHR DISTRICT FOR 1976, FRG MUST
ASSURE MINIMUM 1976 COAL CONSUMPTION ON ORDER OF 30
MILLION TONS. FRG HAS MANAGED TO AVOID SETTING
SPECIFIC POWER-PLANT QUOTAS BY JAWBONING POWER
INDUSTRY INTO COMMITMENT WHICH IT MUST NOW DIVIDE AMONG
ITS MEMBERS. DESPITE FRIDERICH'S FORECAST, HOWEVER, IT
REMAINS QUESTIONABLE WHETHER 1976 COAL CONSUMPTION WILL
REACH GUIDELINE OF FRG ENERGY PROGRAM (33
MILLION TONS).

7. ASIDE FROM POSSIBLE REVISION IN STOCKPILING LAW
(REF B), WEST GERMAN OIL INDUSTRY HAS GAINED LITTLE FROM
RECENT ENERGY DEBATE. ECONMINISTRY SOURCE TELLS US THAT
QUESTIONS OF IMPORT CONTROLS (OR "SELF-RESTRAINT"
PROGRAMS) ON PRODUCTS, AND OF INVESTMENT INCENTIVES TO
BUILD CRACKERS IN REFINERIES, ARE NOW CLOSED. WINDFALL
PROFITS TAX, DEPENDING ON HOW APPLIED AND WHETHER
COMPANIES CHALLENGE IT IN COURT, MIGHT ENHANCE COMPETI-
TIVE POSITION OF CRUDE-POOR GERMAN FIRMS, PARTICULARLY
VEBA WHOSE CHAIRMAN MISSES FEW OPPORTUNITIES TO
INVEIGH AGAINST INTEGRATED MAJORS WHO COMMAND GERMAN
MARKET. END COMMENT.
HILLENBRAND

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